CHC Group Ltd.
Form 10-Q
December 14, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 10-Q
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended October 31, 2016
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to .
Commission File Number: 001-36261
CHC Group Ltd.
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Cayman Islands | 98-0587405 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

190 Elgin Avenue
George Town
Grand Cayman, KY1-9005
Cayman Islands
(Address of principal executive offices, including zip code)
(604) 276-7500
(Registrant's telephone number, including area code)
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

| | |
|---|---|
| Large accelerated filer ¨ | Accelerated filer ¨ |
| Non-accelerated filer ¨ (Do not check if a smaller reporting company) | Smaller reporting company x |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x
As of October 31, 2016, there were 2,731,877 ordinary shares issued and outstanding, excluding unvested restricted shares of 834.

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CHC GROUP LTD.
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTER ENDED
October 31, 2016
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PART I—FINANCIAL INFORMATION

TRADEMARKS



GLOSSARY

| | |
|---|---|
| Adjusted EBITDAR | Adjusted EBITDAR is defined as earnings before interest, taxes, depreciation, amortization, helicopter lease and associated costs, restructuring expense (recovery), asset impairments, gain (loss) on disposal of assets, foreign exchange gain (loss), other financing income (charges) and reorganization items, net, or total revenue plus earnings from equity accounted investees less direct costs, excluding helicopter lease and associated costs, and general and administration costs. This is a non-GAAP financial measure. |
| Adjusted EBITDAR margin | Adjusted EBITDAR margin is calculated as Adjusted EBITDAR divided by total revenue less reimbursable revenue. Cost reimbursements from customers are recorded as reimbursable revenue with the related reimbursement expense in direct costs. This is a non-GAAP financial measure. |
| EMS | Emergency medical services. |
| Heavy helicopter | A category of twin-engine helicopters that requires two pilots, can accommodate 16 to 26 passengers and can operate under instrument flight rules, which allow daytime and nighttime flying in a variety of weather conditions. The greater passenger capacity, larger cabin, longer flight range, and ability to operate in adverse weather conditions make heavy helicopters more suitable than single engine helicopters for offshore support. Heavy helicopters are generally utilized to support the oil and gas sector, construction and forestry industries and SAR and EMS customer requirements. |
| Long-term contracts | Contracts of three years or longer in duration. |
| Medium helicopter | A category of twin-engine helicopters that generally requires two pilots, can accommodate eight to 15 passengers and can operate under instrument flight rules, which allow daytime and nighttime flying in a variety of weather conditions. The greater passenger capacity, longer flight range, and ability to operate in adverse weather conditions make medium helicopters more suitable than single engine helicopters for offshore support. Medium helicopters are generally utilized to support the oil and gas sector, construction and forestry industries and SAR and EMS customer bases in certain jurisdictions. Medium helicopters can also be used to support the utility and mining sectors, as well as certain parts of the construction and forestry industries, where transporting a smaller number of passengers or carrying light loads over shorter distances is required. |
| MRO | Maintenance, repair and overhaul. |
| New technology | When used herein to classify our helicopters, a category of higher-value, recently produced, more sophisticated and more comfortable helicopters, including Airbus Helicopters H225, H135, H145 |

| | |
|---|---|
| | and H155; AgustaWestland's AW139; and Sikorsky's S76C++ and S92A. |
| OEM | Original equipment manufacturer. |
| PBH | Power-by-the-hour. A program where a helicopter operator pays a fee per flight hour to an MRO provider as compensation for repair and overhaul components required in order for the helicopter to maintain an airworthy condition. |
| Rotables | Helicopter parts that can be repaired and reused such that they typically have an expected life approximately equal to the helicopters that they support. |
| SAR | Search and rescue. |

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ITEM 1. FINANCIAL STATEMENTS
CHC Group Ltd. (Debtor-in-Possession)
Consolidated Balance Sheets
(Expressed in thousands of United States dollars except share and per share information)
(Unaudited)

| | April 30, 2016 | October 31, 2016 |
|---|---|---|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | $266,130 | $287,694 |
| Receivables, net of allowance for doubtful accounts of $2.1 million and $9.3 million, respectively (note 3(a)(ii)) | 182,507 | 183,437 |
| Income taxes receivable | 5,962 | 6,812 |
| Inventories (note 6) | 92,249 | 95,114 |
| Prepaid expenses | 38,766 | 29,702 |
| Other assets (note 7) | 40,059 | 35,725 |
| | 625,673 | 638,484 |
| Property and equipment, net | 967,619 | 841,820 |
| Investments (note 3(b)(i)) | 37,640 | 7,304 |
| Intangible assets | 82,898 | 82,735 |
| Restricted cash | 25,082 | 15,885 |
| Other assets (note 7) | 367,481 | 197,430 |
| Deferred income tax assets | 2,570 | 80 |
| Assets held for sale | 5,305 | 3,516 |
| | $2,114,268 | $1,787,254 |
| Liabilities and Shareholders' Deficit | | |
| Liabilities not subject to compromise: | | |
| Current liabilities: | | |
| Payables and accruals | $279,028 | $205,826 |
| Deferred revenue | 34,413 | 23,601 |
| Income taxes payable | 37,960 | 6,664 |
| Current facility secured by accounts receivable (note 3(a)(ii)) | 22,339 | — |
| Other liabilities (note 8) | 70,540 | 3,859 |
| Current portion of debt obligations (note 9) | 1,633,377 | — |
| | 2,077,657 | 239,950 |
| Debt obligations (note 9) | 25,886 | — |
| Deferred revenue | 56,701 | 27,577 |
| Other liabilities (note 8) | 242,711 | 63,190 |
| Deferred income tax liabilities | 8,775 | 8,553 |
| Total liabilities not subject to compromise | 2,411,730 | 339,270 |
| | | |
| Liabilities subject to compromise (note 11) | — | 2,656,288 |
| Total liabilities | 2,411,730 | 2,995,558 |
| | | |
| Redeemable non-controlling interests (note 3(a)(i)) | 18,867 | 18,343 |
| Redeemable convertible preferred shares: Par value $0.0001 | | |
| Authorized: 6,000,000; Issued: 671,189 and 671,189; Dividends in arrears: $7.1 million and $7.9 million | 643,967 | 643,967 |

| | | |
|---|---|---|
| Capital stock: Par value $0.003 (ordinary), $0.0001 (preferred): | | |
| Authorized: 544,000,000; Issued: 2,721,592 and 2,731,877 | 8 | 8 |
| Additional paid-in capital (note 3(a)(i)) | 1,914,560 | 1,913,914 |
| Deficit | (2,510,277 ) | (3,473,239 ) |
| Accumulated other comprehensive loss | (364,587 ) | (311,297 ) |
| | (960,296 ) | (1,870,614 ) |
| | $2,114,268 | $1,787,254 |

See accompanying notes to interim consolidated financial statements.
See table in note 3(a)(i) for certain amounts included in the Consolidated Balance Sheets related to variable interest entities.

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CHC Group Ltd. (Debtor-in-Possession)
Consolidated Statements of Operations
(Expressed in thousands of United States dollars except share and per share information)
(Unaudited)

| | Three months ended | | Six months ended | |
|---|---|---|---|---|
| | October 31, 2015 | October 31, 2016 | October 31, 2015 | October 31, 2016 |
| Revenue | $360,753 | $249,536 | $736,690 | $519,972 |
| Operating expenses: | | | | |
| Direct costs | (287,380 ) | (229,387 ) | (601,550 ) | (476,248 ) |
| Earnings from equity accounted investees (note 3(b)(i)) | 1,338 | 12,131 | 2,771 | 12,392 |
| General and administration costs | (18,097 ) | (12,756 ) | (34,453 ) | (28,184 ) |
| Depreciation | (35,537 ) | (42,146 ) | (75,818 ) | (77,844 ) |
| Restructuring recovery (expense) (note 4) | (16,211 ) | 2,416 | (35,590 ) | 11 |
| Asset impairments (note 5) | (10,459 ) | (2,691 ) | (10,459 ) | (2,691 ) |
| Loss on disposal of assets | (1,419 ) | (599 ) | (2,406 ) | (1,724 ) |
| | (367,765 ) | (273,032 ) | (757,505 ) | (574,288 ) |
| Operating loss | (7,012 ) | (23,496 ) | (20,815 ) | (54,316 ) |
| Interest on debt obligations (note 9(a)) | (27,286 ) | (6,891 ) | (54,232 ) | (15,482 ) |
| Foreign exchange loss | (9,551 ) | (30,667 ) | (19,630 ) | (49,099 ) |
| Other financing income (charges) (note 13) | 5,827 | (7,110 ) | 15,921 | 390 |
| Reorganization items, net (note 10) | — | (50,526 ) | — | (835,916 ) |
| Loss before income tax | (38,022 ) | (118,690 ) | (78,756 ) | (954,423 ) |
| Income tax expense (note 14) | (3,942 ) | (11,166 ) | (9,850 ) | (11,225 ) |
| Net loss | $(41,964 ) | $(129,856) | $(88,606 ) | $(965,648) |
| Net earnings (loss) attributable to: | | | | |
| Controlling interest | $(44,116 ) | $(127,613) | $(97,478 ) | $(962,962) |
| Non-controlling interests | 2,152 | (2,243 ) | 8,872 | (2,686 ) |
| Net loss | $(41,964 ) | $(129,856) | $(88,606 ) | $(965,648) |
| | | | | |
| Computation of basic and diluted net loss per ordinary share: | | | | |
| Net loss attributable to controlling interest | $(44,116 ) | $(127,613) | $(97,478 ) | $(962,962) |
| Redeemable convertible preferred share dividends including cumulative effect of dividends in arrears of $0.2 million, $nil, $0.4 million, and $0.8 million | (13,608 ) | — | (26,932 ) | (784 ) |
| Adjustment of redeemable non-controlling interest to redemption amount (note 3(a)(i)) | 2,154 | (2,017 ) | 18,530 | (1,945 ) |
| Net loss available to common stockholders | $(55,570 ) | $(129,630) | $(105,880) | $(965,691) |
| | | | | |
| Net loss per ordinary share available to common stockholders - basic and diluted | $(20.45 ) | $(47.53 ) | $(39.00 ) | $(354.45 ) |
| | | | | |
| Weighted average number of ordinary shares outstanding - basic and diluted | 2,716,933 | 2,727,294 | 2,714,730 | 2,724,466 |

See accompanying notes to interim consolidated financial statements.

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CHC Group Ltd. (Debtor-in-Possession)
Consolidated Statements of Comprehensive Loss
(Expressed in thousands of United States dollars)
(Unaudited)

| | Three months ended | | Six months ended | |
|---|---|---|---|---|
| | October 31, 2015 | October 31, 2016 | October 31, 2015 | October 31, 2016 |
| Net loss | $(41,964) | $(129,856) | $(88,606) | $(965,648) |
| Other comprehensive earnings (loss): | | | | |
| Net foreign currency translation adjustments | (12,151) | 39,385 | (36,810) | 48,361 |
| Net change in defined benefit pension plan, net of income tax | 1,091 | 1,424 | 2,695 | 6,863 |
| Comprehensive loss | $(53,024) | $(89,047) | $(122,721) | $(910,424) |
| Comprehensive income (loss) attributable to: | | | | |
| Controlling interest | $(55,546) | $(87,620) | $(141,985) | $(909,672) |
| Non-controlling interests | 2,522 | (1,427) | 19,264 | (752) |
| Comprehensive loss | $(53,024) | $(89,047) | $(122,721) | $(910,424) |

See accompanying notes to interim consolidated financial statements.

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CHC Group Ltd. (Debtor-in-Possession)
Consolidated Statements of Cash Flows
(Expressed in thousands of United States dollars)
(Unaudited)

| | Six months ended October 31, 2015 | Six months ended October 31, 2016 |
|---|---|---|
| Cash provided by (used in): | | |
| Operating activities: | | |
| Net loss | $(88,606) | $(965,648) |
| Adjustments to reconcile net loss to cash flows provided by (used in) operating activities: | | |
| Depreciation | 75,818 | 77,844 |
| Loss on disposal of assets | 2,406 | 1,724 |
| Asset impairments (note 5) | 10,459 | 2,691 |
| Earnings from equity accounted investees less dividends received | (2,186) | (11,785) |
| Deferred income taxes | 185 | 2,624 |
| Non-cash stock-based compensation expense | 1,850 | 1,299 |
| Net gain on debt extinguishment (note 13) | (17,799) | — |
| Amortization of long-term debt and lease deferred financing costs | 5,003 | 2,071 |
| Unrealized net gain on derivative financial instruments | (19,925) | (2,119) |
| Non-cash defined benefit pension expense (income) (note 15) | (343) | 1,630 |
| Defined benefit contributions and benefits paid | (16,429) | (12,122) |
| Unrealized loss on foreign currency exchange translation | 18,544 | 57,544 |
| Reorganization items, net, non-cash (note 10) | — | 813,870 |
| Other | (6,967) | (8,773) |
| Change in cash resulting from changes in operating assets and liabilities: | | |
| Receivables, net of allowance | 18,555 | (7,593) |
| Income taxes receivable and payable | 985 | 1,747 |
| Inventories | (2,088) | (6,034) |
| Prepaid expenses | (829) | 7,347 |
| Payables and accruals | (8,325) | 80,862 |
| Deferred revenue | 3,501 | 15,575 |
| Other assets and liabilities | (705) | (21,556) |
| Cash provided by (used in) operating activities | (26,896) | 31,198 |
| Financing activities: | | |
| Sold interest in accounts receivable, net of collections | 8,305 | (21,620) |
| Debt proceeds | 326,400 | — |
| Debt and capital lease repayments | (215,748) | (2,189) |
| Repurchases of senior unsecured notes | (22,101) | — |
| Increase in deferred financing costs | (4,868) | — |
| Cash provided by (used in) financing activities | 91,988 | (23,809) |
| Investing activities: | | |
| Property and equipment additions | (106,952) | (27,452) |
| Proceeds from disposal of property and equipment | 28,470 | 1,844 |
| Helicopter deposits net of lease inception refunds | (32,607) | — |
| Proceeds from sale of equity accounted investees (note 3(b)(i)) | — | 35,518 |
| Restricted cash | (8,736) | 8,483 |
| Cash provided by (used in) investing activities | (119,825) | 18,393 |

| | | |
|---|---|---|
| Effect of exchange rate changes on cash and cash equivalents | (11,172 ) | (4,218 ) |
| Change in cash and cash equivalents during the period | (65,905 ) | 21,564 |
| Cash and cash equivalents, beginning of period | 134,297 | 266,130 |
| Cash and cash equivalents, end of period | $68,392 | $287,694 |
| | | |
| Supplemental cash flow information: | | |
| Assets acquired through non-cash capital leases | $18,055 | $— |
| Non-cash settlement of obligations by letters of credit (note 9(b)) | — | 39,416 |

See accompanying notes to interim consolidated financial statements.

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CHC Group Ltd. (Debtor-in-Possession)
Consolidated Statements of Shareholders' Deficit
(Expressed in thousands of United States dollars except share information)
(Unaudited)

| Six months ended October 31, 2015 | Capital stock | | Additional paid-in capital | Deficit | Accumulated other comprehensive loss | Total shareholders' deficit | Redeemable non-controlling interests | Redeemable convertible preferred shares | |
|---|---|---|---|---|---|---|---|---|---|
| | Number of shares | Amount | | | | | | Number of shares | Amount |
| April 30, 2015 | 2,708,312 | $ 8 | $ 1,961,007 | $ (2,070,254) | $ (316,227) | $ (425,466) | $ 16,940 | 617,045 | $ 589,823 |
| Issuance of capital stock for stock option and service vesting shares | 9,204 | — | — | — | — | — | — | — | — |
| Foreign currency translation | — | — | — | — | (46,177) | (46,177) | 9,367 | — | — |
| Stock-based compensation expense | — | — | 1,850 | — | — | 1,850 | — | — | — |
| Defined benefit plan, net of income tax | — | — | — | — | 1,670 | 1,670 | 1,025 | — | — |
| Redeemable convertible preferred share dividends | — | — | (26,503) | — | — | (26,503) | — | 26,503 | 26,503 |
| Adjustment of redeemable non-controlling interest to redemption amount (note 3(a)(i)) | — | — | 18,530 | — | — | 18,530 | (18,530) | — | — |
| Net earnings (loss) | — | — | — | (97,478) | — | (97,478) | 8,872 | — | — |
| October 31, 2015 | 2,717,516 | $ 8 | $ 1,954,884 | $ (2,167,732) | $ (360,734) | $ (573,574) | $ 17,674 | 643,548 | $ 616,326 |

| Six months ended October 31, 2016 | Capital stock | | Additional paid-in capital | Deficit | Accumulated other comprehensive loss | Total shareholders' deficit | Redeemable non-controlling interests | Redeemable convertible preferred shares | |
|---|---|---|---|---|---|---|---|---|---|
| | Number of shares | Amount | | | | | | Number of shares | Amount |
| April 30, 2016 | 2,721,592 | $ 8 | $ 1,914,560 | $ (2,510,277) | $ (364,587) | $ (960,296) | $ 18,867 | 671,189 | $ 643,967 |
| | 10,285 | — | — | — | — | — | — | — | — |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Issuance of capital stock for stock option and service vesting shares | | | | | | | | | |
| Foreign currency translation | — | — | — | — | 47,664 | 47,664 | 697 | — | — |
| Stock-based compensation expense | — | — | 1,299 | — | — | 1,299 | — | — | — |
| Defined benefit plan, net of income tax | — | — | — | — | 5,626 | 5,626 | 1,237 | — | — |
| Adjustment of redeemable non-controlling interest to redemption amount (note 3(a)(i)) | — | — | (1,945) | — | — | (1,945) | 1,945 | — | — |
| De-consolidation of variable interest entity (note 3(a)(i)) | — | — | — | — | — | — | (1,717) | — | — |
| Net loss | — | — | — | (962,962) | — | (962,962) | (2,686) | — | — |
| October 31, 2016 | 2,731,877 | $ 8 | $ 1,913,914 | $ (3,473,239) | $ (311,297) | $ (1,870,614) | $ 18,343 | 671,189 | $ 643,967 |

See accompanying notes to interim consolidated financial statements.

CHC Group Ltd. (Debtor-in-Possession)
Notes to Interim Consolidated Financial Statements (Unaudited)
(Tabular amounts expressed in thousands of United States dollars unless otherwise noted, except share and per share information)

1. Voluntary filing under Chapter 11 of the United States Bankruptcy Code ("Chapter 11"):

We have incurred net losses since our acquisition on September 16, 2008 of the entity formerly known as CHC Helicopter Corporation. We have a substantial level of indebtedness and operating lease commitments and have experienced a significant decline in consolidated revenues due to the downturn in the oil and gas industry since mid-2014. As a result of this, on May 5, 2016 (the "Petition Date"), CHC Group Ltd. and a number of its subsidiaries (cumulatively referred to as the "Debtors") filed voluntary petitions (the "Bankruptcy Petitions" or the "Petitions") in the United States Bankruptcy Court for the Northern District of Texas (the "Bankruptcy Court"), seeking relief under Chapter 11 of Title 11 of the United States Code (the "Bankruptcy Code"). The Bankruptcy Court entered an order providing for the joint administration of the Bankruptcy Cases under the caption In re CHC Group Ltd., et al., which we refer to together as the "Bankruptcy Cases".

The Petitions filed by the Debtors seeking relief under the Bankruptcy Code constituted an event of default that accelerated our obligations under the indenture, dated October 4, 2010, that governs the 9.250% Senior Secured Notes Due 2020 (the "senior secured notes"); the indenture, dated May 13, 2013, that governs the 9.375% Senior Notes Due 2021 (the "senior unsecured notes"); our senior secured revolving credit facility, dated as of January 23, 2014 (the "revolving credit facility") and our asset-based revolving credit facility, dated June 12, 2015 (the "ABL Facility"). In addition, this also caused an event of default under the terms of all of our helicopter lease agreements and certain other obligations.

The Debtors have filed motions, net of withdrawn motions, for the rejection or abandonment of 87 helicopters in our fleet which we no longer need in the operation of our business. This includes 82 leased helicopters and 5 helicopters financed under our ABL Facility. The revised abandonment motion for 5 helicopters financed under our ABL Facility included a motion to restructure the financing terms of the remaining 8 helicopters with an amended principal balance, which was approved by the Bankruptcy Court by order dated December 5, 2016. As of December 13, 2016, the Bankruptcy Court had approved 74 helicopter lease rejections. Discussions with our lenders and lessors remain ongoing, the status of those discussions remain fluid, and the outcome of such discussions cannot be assured.

On October 11, 2016, the Debtors entered into a plan support agreement (as has and may be amended the "PSA") with respect to the terms of a Chapter 11 plan of reorganization (the "Plan") with holders representing 67.6% of the senior secured notes and 73.6% of the senior unsecured notes (including the Consenting Creditor Parties (as hereinafter defined)), the official committee of unsecured creditors ("UCC") in the Bankruptcy Cases, and Milestone Aviation Group Limited and its affiliates (the "Lead Lessor") (collectively, the "Consenting Creditor Parties"). On November 11, 2016, the Debtors filed the Plan and the related disclosure statement (the "Disclosure Statement") with the Bankruptcy Court. The Consenting Creditor Parties, other than the UCC, have agreed to vote to accept the Plan, except in certain circumstances, and the UCC has agreed to support the Plan and recommend that unsecured creditors vote to accept it. The PSA and related agreements are subject to customary closing conditions, approval by the Bankruptcy Court, receipt of a Bankruptcy Court approved disclosure statement and solicitation materials, and contain termination rights upon the occurrence of certain events. The Plan is subject to acceptance by the Debtors' creditors (as and to the extent required under the Bankruptcy Code) and confirmation by the Bankruptcy Court.

The principal provisions of the Plan are as follows:

- The Company has agreed to solicit participation in a $300.0 million rights offering (the "Rights Offering") of second lien convertible notes (the "Second Lien Convertible Notes") to eligible holders of senior secured and senior unsecured notes, with $280.0 million allocated to eligible holders of senior secured notes and $20.0 million allocated to eligible holders of senior unsecured notes.

- The Second Lien Convertible Notes will be issued at a 10% original issuance discount and include a $100.0 million premium for the equitization of the secured notes secured claims, resulting in a total of $433.3 million in aggregate principal amount. The Second Lien Convertible Notes will have a 3.5 year maturity and are mandatorily convertible into 85.4% of the New Membership Interests (“New Membership Interests”) to be issued by a newly-formed Cayman limited liability company (the “Reorganized Company”) on a fully diluted basis (but subject to dilution by the management incentive plan of the Reorganized Company (“MIP”)) upon maturity or certain specified conditions.

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CHC Group Ltd. (Debtor-in-Possession)
Notes to Interim Consolidated Financial Statements (Unaudited)
(Tabular amounts expressed in thousands of United States dollars unless otherwise noted, except share and per share information)

- The Second Lien Convertible Notes will rank second to the collateral securing a new credit facility in a principal amount to be determined (the "Exit Credit Facility") to be provided to holders of claims of the revolving credit facility ("Revolving Credit Agreement Claims"); will not bear or pay interest other than in connection with an event of default; and will have the same rights with respect to dividends and voting as New Membership Interests on an as-converted basis.

Holders of the senior secured notes, senior unsecured notes and general unsecured claims will receive the following general treatment under the Plan:

- In addition to the ability to participate in the Rights Offering allocated to the senior secured notes, all holders of senior secured notes will receive their pro rata share of 79.5% of New Membership Interests (prior to dilution by Second Lien Convertible Notes and the MIP), which equates to 11.6% of New Membership Interests (fully diluted on account of the Second Lien Convertible Notes, but excluding the MIP).
- All holders of the senior unsecured notes will receive their pro rata share of 8.9% of New Membership Interests (prior to dilution by the Second Lien Convertible Notes and the MIP), which equates to 1.3% of New Membership Interests (fully diluted on account of the Second Lien Convertible Notes, but excluding the MIP).
- All other holders of allowed general unsecured claims of the Company will receive their share of (a) 11.6% of New Membership Interests (prior to dilution by the Second Lien Convertible Notes and the MIP), which equates to 1.7% of New Membership Interests (fully diluted on account of the Second Lien Convertible Notes, but excluding the MIP), and (b) $37.5 million in new unsecured notes of the Reorganized Company, less the amount of cash distributed to certain holders of allowed general unsecured claims who are to receive cash for administrative convenience ("New Unsecured Notes"). The New Unsecured Notes will have a seven year maturity and an interest rate of 5.0%, payable in kind until the conversion of the Second Lien Convertible Notes and thereafter payable in cash. The New Unsecured Notes will rank pari passu with the Second Lien Convertible Notes and will be deemed senior indebtedness of the Reorganized Company, but will not have the benefit of any security or be convertible into New Membership Interests.
- Upon the effective date, the Reorganized Company will adopt the MIP, including a reservation of ten percent (10%) of the New Membership Interests on a fully diluted basis for distribution thereunder.
- Holders of allowed Revolving Credit Agreement Claims will receive their pro rata share of the Exit Credit Facility or such treatment that would otherwise satisfy Section 1129 of the Bankruptcy Code. The terms of the Exit Credit Facility are under negotiation.
- The Plan does not provide for any distribution to holders of the Company's existing equity securities, including its ordinary shares and preferred shares.

The Plan distinguishes between a Primary General Unsecured Claim and a Secondary General Unsecured Claim (as defined in the Plan). The Plan provides that each holder of an Allowed General Unsecured Claim (as defined in the Plan) against the Debtors will receive, in full and final satisfaction and discharge of such holder's rights with respect to and under such Allowed General Unsecured Claim, and, in accordance with the Restructuring Transactions as provided in the Disclosure Statement to the Plan: (i) on account of its Allowed Primary General Unsecured Claim (as defined in the Plan), its Pro Rata share of the Primary General Unsecured Claims Distribution (as defined in the Plan), plus (ii) on account of any Allowed Secondary General Unsecured Claim (as defined in the Plan), against one or more Secondary Recovery Debtors (as defined in the Plan), if applicable, its Pro Rata share of the Secondary General Unsecured Claims Distribution (as defined in the Plan) allocated to the applicable Secondary Recovery Debtor against which it holds an Allowed Secondary General Unsecured Claim (as defined in the Plan). For the avoidance of doubt, if a holder of Allowed General Unsecured Claims holds an Allowed Secondary General Unsecured Claim against any Debtor that is not a Secondary Recovery Debtor, such holder will not receive any additional recoveries on account of such claim.

In connection with the Plan, the Company has entered into a backstop agreement (the “Backstop Agreement”) pursuant to which certain of the Consenting Creditor Parties have agreed to backstop the Rights Offering (the “Backstop Commitment”). Pursuant to the Backstop Commitment, certain of the Consenting Creditor Parties, severally and not jointly, have agreed to fully participate in the Rights Offering and purchase the Second Lien Convertible Notes in accordance with the percentages set forth in the Backstop Agreement to the extent unsubscribed under the Rights Offering in exchange for a principal amount of $30.8 million of Second Lien Convertible Notes (the “Put Option Premium”). Upon certain triggering events, the Put Option Premium will become fully due and payable in two equal installments of approximately $10.665 million.

In addition, as part of the Plan, the Company has entered into an agreement with the Lead Lessor, pursuant to which, among other things, the Lead Lessor has agreed to restructure its existing aircraft fleet leasing arrangements with the Company and to provide a new $150.0 million asset-based debt facility. The key terms of this agreement include the restricting of lease rental for the helicopters that will remain in the Debtors’ fleet, the consensual return of certain helicopters, extension options for certain of the retained helicopters, leases for additional helicopters and the payment of certain fees and expenses.

Since the Petition Date, the Debtors have operated their business as “debtors-in-possession.” The Debtors continue to operate their businesses and manage their properties as debtors-in-possession under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code and orders of the Bankruptcy Court. Any efforts by creditors to enforce such payment obligations as existed before the Petition Date are automatically stayed as a result of the filing of the Petitions, and the holders’ rights of enforcement are subject to the applicable provisions of the Bankruptcy Code. The Bankruptcy Court has approved certain motions for the payment of certain pre-petition obligations, including those related to certain taxes, employee wages, severance and helicopter part repair orders.

These conditions result in material uncertainty that gives rise to substantial doubt about our ability to continue as a going concern. We believe that we will require significant debt, lease and other restructuring to continue as a going concern. Our ability to continue as a going concern is contingent upon the Bankruptcy Court and our creditors’ approval of the Plan or alternative successful restructuring. Our ability to continue as a going concern will also be dependent on our ability to implement the Plan, to maintain existing management, customer, vendor and other relationships, and to maintain sufficient liquidity throughout the Chapter 11 proceedings, amongst other factors.

The unaudited interim consolidated financial statements (“interim financial statements”) have been prepared under the assumption that the Company will continue as a going concern and do not include any adjustments related to the recoverability and classification of assets or the amounts and classification of liabilities or any other adjustments that might be necessary should we be unable to continue as a going concern or as a consequence of the Bankruptcy Cases. While operating as debtors-in-possession under the jurisdiction of the Bankruptcy Court, we may sell or otherwise dispose of or liquidate assets or settle liabilities, subject to the approval of the Bankruptcy Court, or as otherwise permitted in the ordinary course of business, for amounts other than those reflected in the accompanying interim financial statements.

2. Significant accounting policies:

(a) Basis of presentation:

The interim financial statements include the accounts of CHC Group Ltd. and its subsidiaries (the “Company”, “we”, “us” or “our”) after elimination of all significant intercompany accounts and transactions. The interim financial statements are presented in United States dollars and have been prepared in accordance with the United States Generally Accepted Accounting Principles (“US GAAP”) for interim financial information. Accordingly, the interim financial statements do not include all of the information and disclosures for complete financial statements.

In the opinion of management, these interim financial statements contain all adjustments, consisting of normal recurring accruals, necessary to present fairly the financial position, results of operations and cash flows for the

periods indicated. Results of operations for the periods presented are not necessarily indicative of results of operations for the entire year.
The financial information as of April 30, 2016 is derived from our annual audited consolidated financial statements and notes for the fiscal year ended April 30, 2016. These interim financial statements should be read in conjunction with our consolidated financial statements and related notes for the fiscal year ended

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April 30, 2016, which are included in our Annual Report on Form 10-K for the fiscal year ended April 30, 2016 which was filed with the Securities and Exchange Commission ("SEC") on July 15, 2016.

(b) Bankruptcy accounting and disclosures:

As a result of the filing of the Bankruptcy Petitions, we have applied the FASB Accounting Standards Codification ("ASC") 852 Reorganizations in preparing our interim financial statements. ASC 852 requires that financial statements distinguish transactions and events that are directly associated with the reorganization from the ongoing operations of the business. Accordingly, certain expenses, realized gains and losses and provisions for losses that are realized or incurred in the bankruptcy proceedings have been recorded in a reorganization line item in our consolidated statements of operations. In addition, the pre-petition obligations that may be impacted by the bankruptcy reorganization process have been classified on the balance sheet as liabilities subject to compromise. These liabilities are reported as the amounts expected to be allowed by the Bankruptcy Court, even if they may be settled for lesser amounts.

In connection with an emergence from the Bankruptcy Cases, the Company may be required to adopt fresh-start accounting, upon which the Company's assets and liabilities will be recorded at their fair value. The fair values of the Company's assets and liabilities as of that date may differ materially from the recorded values of its assets and liabilities as reflected in our historical consolidated financial statements. In addition, the Company's adoption of fresh-start accounting may materially affect its results of operations following the fresh-start reporting dates as the Company may have a new basis in its assets and liabilities. Consequently, the Company's financial statements may not be comparable with the financial statements prior to that date and the historical financial statements may not be reliable indicators of its financial condition and results of operations for any period after it adopts fresh-start accounting. The Company is in the process of evaluating the potential impact of the fresh-start accounting on its consolidated financial statements.

(c) Foreign currency:

The currencies which most influence our foreign currency translations and the relevant exchange rates were:

| | Six months ended | |
|---|---|---|
| | October 31, 2015 | October 31, 2016 |
| Average rates: | | |
| £/US $ | 1.547129 | 1.341183 |
| CAD/US $ | 0.780275 | 0.767048 |
| NOK/US $ | 0.124142 | 0.120810 |
| AUD/US $ | 0.741495 | 0.751323 |
| €/US $ | 1.116105 | 1.117435 |
| Period end rates: | | |
| £/US $ | 1.544218 | 1.221294 |
| CAD/US $ | 0.764351 | 0.746102 |
| NOK/US $ | 0.118092 | 0.121167 |
| AUD/US $ | 0.713292 | 0.761322 |
| €/US $ | 1.104181 | 1.096172 |

(d) Comparative figures:

In December 2015, our Board of Directors and shareholders approved a reverse share split, by way of consolidation, whereby all of the Company's ordinary shares of capital stock (issued and unissued) were adjusted to reflect the reverse share split ratio of 30:1 (that is, each 30 shares of stock were consolidated into one share). The reverse share split was effective on December 11, 2015. The principal effects of the reverse share split were as follows:

- all capital stock par value and authorized and issued per share information were adjusted retroactively for all prior periods presented to reflect the reverse share split ratio. This includes the calculations of our weighted average number of ordinary shares outstanding and net loss per ordinary share available to common stockholders;
- proportional adjustments were made to the number of ordinary shares available for issuance under the CHC Group Ltd. 2013 Omnibus Incentive Plan (the "2013 Incentive Plan") and those subject to outstanding equity awards (including stock options, time-based restricted stock units, performance based restricted stock units, service vesting stock options and shares and share price performance options and shares). Additionally, the exercise price of any stock options outstanding under the 2013 Incentive Plan and those subject to other outstanding equity awards were proportionally adjusted to reflect the reverse share split ratio; and
- proportional adjustments were made to the per-share conversion price of the Company's redeemable convertible preferred shares ("preferred shares") in accordance with the Rights and Restrictions of the Redeemable Convertible Preferred Shares. The reverse share split had no impact on the total number of authorized preferred shares nor the number of preferred shares issued and outstanding or its par value.

(e) Recent accounting pronouncements adopted:

Consolidation:

On May 1, 2016, we adopted the amendment to the accounting guidance on the consolidation standard. The amendment includes updates relating to the criteria to determine whether a service provider or decision maker is a variable interest entity ("VIE"), whether a decision maker is the primary beneficiary of a VIE, or whether a related party has the characteristics of a primary beneficiary of a VIE. We determined that there was no material impact on our financial results from the adoption of this standard.

Debt issuance costs:

On May 1, 2016, we adopted the accounting guidance on debt issuance costs. The new guidance requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability rather than as an asset and must be applied retrospectively. As a result, we presented the $26.2 million of deferred financing costs previously classified in other assets at April 30, 2016 as an offset to debt obligations. This had no impact on our net loss or operating cash flows as previously reported.

Share-based compensation:

On May 1, 2016, we adopted amended guidance for accounting for share-based payments when the terms of an award provide that a performance target could be achieved after the requisite service period. The amendment requires that a performance target that affects vesting and that could be achieved after requisite service period be treated as a performance condition. The performance target should not be reflected in estimating the grant-date fair value of the award. Compensation cost should be recognized in the period in which it becomes probable that such performance condition would be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. The requisite service period ends when the employee can cease rendering service and still be eligible to vest in the award if the performance target is achieved. There was no material impact on our financial results from the adoption of this standard.

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(f) Recent accounting pronouncements not yet adopted:

Revenue recognition:

In May 2014, the FASB issued a comprehensive new revenue recognition standard which will supersede previous existing revenue recognition guidance. The standard creates a five-step model for revenue recognition to achieve the objective of recognizing revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. The five-step model includes (1) identifying the contract, (2) identifying the separate performance obligations in the contract, (3) determining the transaction price, (4) allocating the transaction price to the separate performance obligations and (5) recognizing revenue when each performance obligation has been satisfied. The standard also requires expanded disclosures surrounding revenue recognition.

The standard is effective for fiscal periods beginning after December 15, 2017, including interim reporting periods within that reporting period; companies are permitted to early adopt the standard for fiscal periods beginning after December 15, 2016. We will adopt the standard on May 1, 2018. Companies are allowed to use either full retrospective or modified retrospective adoption. We are currently evaluating which transition approach to use and the impact of the adoption of this standard on our consolidated financial statements.